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C O N F I D E N T I A L LAGOS 000428

SIPDIS

DOE FOR GPERSOON, CHAYLOCK

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TAGS: EPET ENRG PGOV NI

SUBJECT: NIGERIA: OIL COMPANIES TIGHTEN THEIR BELTS; DOUBT THE FUTURE OF NEW OFFSHORE OIL

REF: LAGOS 368

Classified By: Consul General Donna M. Blair for reasons 1.4 (B) and (D)

¶1. (C) Summary: Executives at Chevron and Shell have expressed doubts about the potential for new exploration and production in deep water off the Nigerian coast. Additionally, a manager for an American oilfield service company said on October 22 that both Shell and Chevron are cutting their 2009 budgets in Nigeria. His company however, remained busy with work contracted by indigenous oil firms working small oilfields. The budget cuts are a sign that oil companies do not see conditions improving in 2009 and as a result Nigerian oil production will remain below capacity.
End Summary.

¶2. (C) On several occasions during the past four months, executives at Chevron and Shell have expressed their skepticism about the future of deep offshore oil exploration and production in Nigerian waters. Twice in the past four months, during meetings on unrelated topics, a senior executive at Chevron has commented that he believes days of big discoveries in Nigeria's deep offshore environment are over. Additionally, in a meeting on September 13 to discuss rising violence in Rivers State, a top Shell official told Econoffs concerning the deep offshore, "We're done for now. There won't be a Bonga Southwest." (Ref A) (Note: The executive was referring to an oilfield adjacent to Shell's Bonga deep offshore oil production facility. When first discovered this oilfield was thought to contain 1 billion barrels of oil. End Note.)

¶3. (C) During a conversation on October 22, the country manager for Hercules Offshore, an American oilfield service company that supplies jack-up barges to oil companies, told Energyoff that two of his biggest clients were cutting their 2009 budgets. According to the manager, top Chevron officials in Nigeria have told all their department heads not to submit budget requests above 2008 levels. The Hercules manager said that Shell Nigeria plans to reduce its 2009 budget by USD 300 million from 2008 levels. When asked the impact on his business, the executive said his company's equipment was booked though 2009, with most of the new contracts coming from Nigerian-owned oil companies working small oilfields producing 7,000 to 10,000 barrels per day. Hercules could easily deploy additional barges in Nigeria, but the company's corporate headquarters has decided to focus

on business in the Gulf of Mexico, where the barges are in demand to assist in repairing oilfield equipment damaged by recent hurricanes and where operating margins are higher.

¶4. (C) Comment: The pessimism Chevron and Shell expressed on the future of deep offshore oil in Nigeria could be a combination of rising costs, falling oil prices, a government increasingly difficult to work with, and the honest belief that the big oil fields have already been found. On 2009 budgets, the cutbacks in Chevron and Shell reflect more than just falling oil prices. Given how Nigerian oil contracts are structured, Chevron and Shell weren't capturing much of the windfall from USD 140 per barrel oil anyway. Regulatory, policy, security, and political uncertainty in Nigeria are also playing a role. Regardless of what precisely is driving budget cuts, practically speaking it means that Chevron and Shell do not expect conditions to improve in 2009 and as a result Nigeria's oil production will remain well below its capacity. End Comment.

BLAIR